

January 26, 2006

Via Federal Express

Hon. Elizabeth O'Donnell
Executive Director
Public Service Commission of Kentucky
211 Sower Boulevard
Frankfort, KY 40601

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JAN 27 2006

PUBLIC SERVICE
COMMISSION

Re: Case No. 2005-00341
General Adjustment of Electric Rates of Kentucky Power Company

Dear Ms. O'Donnell:

Enclosed please find for filing one original and ten copies of the Kentucky Cable and Telecommunications Association's Responses to Kentucky Power Company's First Set of Data Requests. In addition, I have enclosed another copy of the cover page of these Responses which we ask that you file stamp and return in the enclosed self-addressed stamped envelope.

Thank you, and please let me know if there are any questions.

Very truly yours,

WYATT, TARRANT & COMBS, LLP



Frank F. Chuppe

FFC/pw

Enclosures

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BEFORE THE KENTUCKY PUBLIC SERVICE COMMISSION

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JAN 27 2006

PUBLIC SERVICE
COMMISSION

IN THE MATTER OF:

**GENERAL ADJUSTMENT OF ELECTRIC)
RATES OF KENTUCKY POWER COMPANY)**

Case No. 2005-00341

**KENTUCKY CABLE AND
TELECOMMUNICATIONS ASSOCIATION'S
RESPONSES TO KENTUCKY POWER COMPANY'S
FIRST SET OF DATA REQUESTS**

January 27, 2006

REQUEST

Please reference Freeman testimony at p. 2. Is it Mr. Freeman's understanding that the current CATV rates were calculated using the Company's costs prior to October 12, 1984 (the date of the Commission's Order)?

RESPONSE

Mr. Freeman believes that the current CATV rates were calculated using costs that predated the October 12, 1984 order. It is his understanding that those rates were determined using gross embedded (undepreciated) pole costs and carrying charge components that in some cases were calculated on the basis of net (depreciated) investment.

WITNESS – JAMES W. FREEMAN

REQUEST

Please reference Freeman testimony at p. 6. Mr. Freeman discusses the Company's 1991 proposed increase in the CATV rates.

- (a) Does Mr. Freeman take exception to the 1991 CATV rate calculations?
- (b) If so, what are the exceptions?

RESPONSE

- (a) In part.
- (b) Although Mr. Freeman has not thoroughly studied the Company's 1991 CATV rate calculations in all respects, he has the following response.

In addition to being unnecessarily complex, the primary problem with the calculations appears to be that they apply certain carrying charge elements that are determined based on net investment numbers to a gross embedded (undepreciated) cost of poles. For example, the carrying charge applies the Commission (to be) approved rate of return to gross pole investment, when all Commission approved rates of return are intended to be applied to net (depreciated) investment. Also, the maintenance, administrative and general, and tax elements of the carrying charge are determined as ratios of net (depreciated) investment, but KPC has applied them to gross pole investment. These calculations upset the necessary logical relationship between the carrying charge components and the rate base. Either the pole costs and all investment numbers used in calculating carrying charge elements must be based on gross investment (and the rate of return must be adjusted to be applied to a gross investment number) or the pole costs and all the investment numbers used in calculating the carrying charge elements must be based on net investment.

WITNESS – JAMES W. FREEMAN

REQUEST

Would you agree that the Handy-Whitman costs trends of electric utility construction in the South Atlantic region, distribution plant pole, towers and fixtures indices are as follows:

1984 – 230
1990 – 259
2005 – 374

If the average investment in pole was \$275.89 in 1990 and \$387.51 in 1998, would agree that this represents an average 4.3% per year increase (Freeman Exhibit 2).

RESPONSE

Mr. Freeman does not know what the Handy-Whitman cost trends of electric utility construction in the South Atlantic region, distribution plant pole, towers and fixtures are for the years represented.

Mr. Freeman would agree that if the average investment per pole was as represented, the average annual increase in that average investment would be 4.3% per year.

WITNESS – JAMES W. FREEMAN

REQUEST

Please reference Freeman testimony at p. 3, question 6. Please provide an explanation of your understanding of what comprises "Capital Leases" that were removed from "Total Utility Plant."

RESPONSE

Mr. Wagner has stated that KPC used the same methodology used previously by the Company, and this is one of the many examples where the Company did not actually do that. Mr. Freeman believes that it is KPC's obligation to explain what the capital leases consist of and why they should be excluded, especially because the Commission has not approved their removal.

WITNESS – JAMES W. FREEMAN

REQUEST

Please reference Freeman testimony at pp. 7-8, question 8. The existing two-user pole rate of \$4.97/pole/year, and three-user pole rate of \$5.53. Please explain why your recommended increase to \$6.47, and a rate decrease to \$4.02, respectively, is a reasonable reflection of material and inflationary cost increases.

RESPONSE

The point, of course, is not to reflect general "material and inflationary cost increases" but to establish a proper cost-based rate for pole attachments. Based on the information made available by the Company, Mr. Freeman believes his proposed rates are reasonable and consistent with Commission precedent, as noted in his testimony.

There are several reasons why the rates as determined by Mr. Freeman have not increased more, in the case of two-party rates, or at all, in the case of three-party rates. First, the rates under which KPC has been operating since 1984 were incorrectly calculated in several important respects, the most significant being a mismatch of investment and carrying charges, as described in Data Response 2. In part, therefore, the exercise here is to get the rates back to the correct level, after KPC has over-charged for many years. Second, although there has been a modest average annual increase in pole investment over the years, the carrying charge factors have decreased, indicating that there may have been a decrease in some expenses as a percentage of pole investment. For example, the rate of return of 7.89% factored into Mr. Freeman's calculations (and as proposed by KPC) is considerably less than the rate of return of 12.64 percent used by KPC in 1984. Third, the rates in 1984 were determined according to the cost of 35 and 40-foot poles for two-party rates and the cost of 40 and 45-foot poles for three-party rates. Because KPC has discontinued the record keeping that would permit the determination of the average investment in different size poles, it is now necessary to use the same average size pole for both the two-party and three-party rates.

WITNESS – JAMES W. FREEMAN

Respectfully submitted,

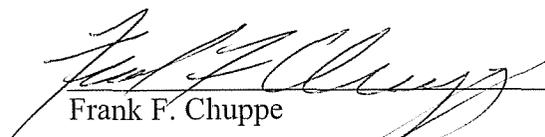
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CERTIFICATE OF SERVICE

The undersigned hereby certifies that an original and ten photocopies of the foregoing were served by Federal Express, overnight delivery, upon Beth O'Donnell, Executive Director, Public Service Commission, 211 Sower Boulevard, Frankfort, KY 40601; and a copy of the foregoing was served upon Bruce F. Clark, Mark R. Overstreet, Judith A. Villines, Stites & Harbison, 421 West Main Street, P.O. Box 634, Frankfort, KY 40602-0634; Richard G. Raff, Public Service Commission of Kentucky, 211 Sower Boulevard, P.O. Box 615, Frankfort, KY 40602-0615; David F. Boehm, Michael L. Kurtz, Boehm, Kurtz & Lowry, 2110 CBLD Center, 36 East Seventh Street, Cincinnati, Ohio 45202; Dennis G. Howard II and Elizabeth E. Blackford, Assistant Attorneys General, 1024 Capital Center Drive, Suite 200, Frankfort, KY 40601-8204; and Joe F. Childers, 201 West Short Street, Suite 310, Lexington, KY 40507 by U.S. Mail, postage prepaid, this 26 day of January, 2006.



Frank F. Chuppe